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TAGS: ECON EFIN EINV SOCI PGOV PINR VM
SUBJECT: (C) HCMC CORRUPTION: GAVE "YEAR OF THE RAT" NEW MEANING

REF: HO CHI MINH 59

CLASSIFIED BY: Kenneth J. Fairfax, Consul General, U.S.
Consulate General Ho Chi Minh, Department of State.
REASON: 1.4 (b), (d)

¶1. (C) Investors are expressing more concern of late about the toll that systematic corruption is taking on Vietnam's economy. Businesses, both foreign and domestic, still face good old-fashioned demands for bribes, but most government officials are more subtle (if not more savvy) and instead use insider influence, land deals and conveniently interpreted regulations as methods for extracting cash from businesses. Some recent examples highlight the pervasive impact of corruption and the way it is sapping economic vitality by subverting legal decisions, slowing infrastructure development and raising production costs. As high-priority development projects such as the HCMC-Long An expressway or the Kien Giang power plant demonstrate, not even projects built at the specific request of Prime Minister Nguyen Tan Dung are immune from corruption-related roadblocks. End Summary.

Corruption Ahead of the Holidays

¶2. (C) A Vietnamese-American company owner/manager working in Vietnam for fifteen years told EconOff that that a court case was recently decided against his company. When the boomtown economy pushed rents up rapidly in 2008, some landowners tried to unilaterally raise lease rates mid-contract. (Note: The U.S. Consulate's Diamond Plaza offices unsuccessfully tried this same trick. End note.) The AmCit held firm on principle, instead taking the property owner to court after the landlord had the audacity to turn off the air-conditioning system and set up a scaffolding to obstruct the store's main entrance. After the court arguments had been made, the judge called in the AmCit for a private meeting and asked if he "had anything else to say?" The AmCit restated his case arguing that landlord should be forced to honor the contract, the judge asked again "no, do you anything else to add?" clearly implying that it was the appropriate time to offer a bribe. Needless to say, the AmCit declined and lost the case.

Not Just Foreigners: Long An's Road to Nowhere

¶3. (C) ITA-Way, led by Vietnam's richest man Dang Thanh Tam, is building an elevated expressway from Ho Chi Minh City to Long An Province. Tam is particularly well connected, so things went along smoothly at first. Tam said licensing was no problem, but issues began to arise when Ministry of Transportation officials first grasped the fact that elevated expressways have a limited number of on- and off-ramps. Officials and politicians had been buying up land alongside the route of the expressway, he said, only to later realize that the money was wasted. A few MOT officials have now begun to agitate to have the license revoked so that a ground-level highway might be built instead. Tam isn't worried because the expressway is already half complete. He says the opponents' main argument that 'it is a waste of money to build a toll-way that will compete with an existing highway between HCMC and the Delta' will not find traction

because their proposed alternative (a ground-level highway) directly contradicts their argument. (Comment: If this were anyone other than Tam, with his long-standing and stellar links to President Triet and many other senior officials, he may well have been forced to capitulate. End Comment.)

Friends in High Places Can't Always Help

¶4. (C) Madame Dang Thi Hoang Yen is president of the Tan Tao Investment-Industry Corporation (ITACO) Group developing industrial parks and infrastructure projects throughout Vietnam.

According to Yen, in 2007 Prime Minister Nguyen Tan Dung asked her to build a power plant in the remote and rural province of Kien Giang, where Dung grew up and first came to prominence. ITACO saw power plants as a losing venture because of GVN price controls, but countered with a bundled proposal to develop infrastructure, including an industrial park, roads and port. The Prime Minister agreed and the Central Government adopted the proposal into Vietnam's development master plan.

¶5. (C) It turns out that support from the Prime Minister means very little a thousand miles from the capital, Yen told EconOff.

Once the licenses were signed and land paid for, provincial officials began to turn the screws. The initial payment didn't include rights to all of the land indicated in the master plan, they said, and as a result ITACO would have to buy a number of parcels dotting the overall concession ITACO though it had purchased. On investigation, Yen said Kien Giang officials had sold these parcels to individuals telling the new owners that ITACO would be forced to pay an even higher price to get the land back.

¶6. (C) How the provincial authorities interpreted environmental rules were another headache, Yen added. The provincial Department of Natural Resources and Environment told ITACO they would have to pay a 500,000 VND (roughly \$30 USD) fee to relocate each tree on project land, including tens of thousands just inches tall that had been planted there shortly after the project license was announced in April 2008. Yen says she has appealed to the Prime Minister for help but that his repeated interventions with provincial officials have not moved local authorities in any meaningful way. Just before the Tet holiday, Yen told the Prime Minister that ITACO would complete the power plant but not the other infrastructure projects in Kien Giang, she said.

Corruption Inflation

¶7. (C) A (non-American) expat businessman who has been doing business in Vietnam for 18 years described to the CG how inflation is impacting his budget for bribes. In this year alone, he said, he had to increase his planned budget for bribes to customs officials to \$90,000 from last year's \$70,000. When he complained to customs officers that this year's "standard payments" represented a higher percentage of his very modest imports, they simply shrugged and said that inflation was hitting everyone these days. The same businessman commented wryly that he could nonetheless see the impact of anti-corruption measures since Vietnamese tax officials auditing his books this January insisted that he change all entries labeled as "bribes" to "social contributions." The tax officials, he reports, of course expected a social contribution of their own for not reporting him.

¶8. (C) An anecdote from a young Vietnamese engineer also conveys the decidedly underwhelming impact of anti-corruption measures. His business includes helping other businesses that are applying for ISO 9001 and similar certifications. As an expert in the field, he is generally 95 percent certain whether a client has met all the rules for certification before he submits the paperwork to the provincial certification office. Despite this, he said that an application delivered without extra cash tucked into folder is carefully reviewed for a few weeks before being returned by a clerk who politely explains that there are some "minor technical points that require clarification." Once those points are corrected, others appear the next time the application is reviewed. No matter how many times a package is reviewed and amended, there will always be more "minor technical

points" until such time as money accompanies the application folder.

Comment:

¶9. (C) Each of these stories track with the trends that international watchdogs like Transparency International have observed in their recent reports. Our interlocutors paint a picture of corruption at the provincial and local level, sometimes in spite of the efforts of Vietnam's top leadership. Their accounts are in line with those told by frustrated land rights activists fed up with opaque and corrupt provincial land use boards. International efforts to encourage greater transparency and accountability are important for addressing corruption. Our two best tools to combat this type of corruption are: 1) the Vietnam Provincial Competitiveness Index, which uses corruption and other factors to rank order provincial economic governance, and 2) regular and vigorous outreach to local and provincial leaders throughout Vietnam.
End comment.

¶10. (U) This cable was coordinated with Embassy Hanoi.

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